

State of Tennessee Indebtedness Report

June 30, 2015



Justin P. Wilson, Comptroller



STATE OF TENNESSEE

Justin P. Wilson
Comptroller

COMPTROLLER OF THE TREASURY

STATE CAPITOL

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November 2, 2015

The Honorable Bill Haslam, Governor
The Honorable Ron Ramsey, Speaker of the Senate
The Honorable Beth Harwell, Speaker of the House of Representatives
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

Ladies and Gentlemen:

The semi-annual State Indebtedness Report of the State of Tennessee is presented to provide updated information on the four state debt issuers: The State Funding Board for Tennessee's General Obligation Debt, the Tennessee Local Development Authority, the Tennessee State School Bond Authority and the Tennessee Housing Development Agency. The report compares outstanding indebtedness at December 31, 2014 and at June 30, 2015. It also includes information on authorized and unissued debt and credit ratings for each debt issuer. Finally, the report presents information on the loan programs administered by the Office of State and Local Finance: the Clean Water State Revolving Fund (CWSRF), the Drinking Water State Revolving Fund (DWSRF), the Energy Efficient Schools Initiative (EESI) and the State Infrastructure Fund (SIF).

We appreciate the commitment of the members of the State Funding Board, the Tennessee Local Development Authority, the Tennessee State School Bond Authority and the Bond Finance Committee of the Tennessee Housing Development Agency and thank them for their help and support of the debt issuance and management process. We also thank our staff in the Office of State and Local Finance and the Tennessee Housing Development Agency for their constant attention to the details of these important financing programs.

Respectfully submitted,

Justin P. Wilson
Comptroller of the Treasury

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State of Tennessee Indebtedness Report

(Unaudited)

	<u>a/o December 31, 2014</u>		<u>a/o June 30, 2015</u>		<u>Variance Increase (Decrease)</u>	
	<u>Number of loans/projects</u>	<u>Debt Outstanding</u>	<u>Number of loans/projects</u>	<u>Debt Outstanding</u>	<u>Number of loans/projects</u>	<u>Debt Outstanding</u>
<u>Long-term General Obligation Debt</u>						
General Obligation Bonds Outstanding	1,975	\$ 1,828,850,000	1,744	\$ 1,772,015,000	(231)	\$ (56,835,000)
<u>General Obligation Commercial Paper</u>						
Tax-Exempt	132	\$ 217,487,000	125	\$ 171,823,000	(7)	\$ (45,664,000)
Taxable	3	24,599,000	3	25,863,000	-	1,264,000
Total Commercial Paper Outstanding	135	\$ 242,086,000	128	\$ 197,686,000	(7)	\$ (44,400,000)
<u>Tennessee Local Development Authority</u>						
Bonds Issued and Outstanding	31	\$ 5,520,000	20	\$ 4,610,000	(11)	\$ (910,000)
<u>Tennessee State School Bond Authority</u>						
Higher Education Facilities Program						
Bonds Outstanding	183	\$ 1,300,325,000	202	\$ 1,546,480,000	19	\$ 246,155,000
Revolving Credit Facility Outstanding:						
Tax-Exempt	29	\$ 98,896,950	25	\$ 51,443,643	(4)	\$ (47,453,307)
Taxable	8	21,754,425	4	10,238,386	(4)	(11,516,039)
Total Revolving Credit Facility	37	\$ 120,651,375	29	\$ 61,682,029	(8)	\$ (58,969,346)
Qualified Zone Academy Bond Program						
Bonds Outstanding	16	\$ 43,920,000	16	\$ 43,920,000	-	\$ -
Qualified School Construction Bonds						
Series 2009	13	\$ 177,000,000	13	\$ 177,000,000	-	\$ -
Series 2010	15	\$ 212,440,000	15	\$ 212,440,000	-	\$ -
<u>Tennessee Housing Development Agency</u>						
Mortgage Loans/Principal Outstanding	18,814	\$ 1,447,145,000	18,785	\$ 1,474,520,000	(29)	\$ 27,375,000
("NIBP") (2009 Bond Resolution)	4,964	490,340,000	4,656	474,450,000	(308)	(15,890,000)
Mortgage Loans / Principal Outstanding	23,778	\$ 1,937,485,000	23,441	\$ 1,948,970,000	(337)	\$ 11,485,000
Total State Indebtedness:	a/o 12/31/2014	\$ 5,868,277,375	a/o 6/30/2015	\$ 5,964,803,029		\$ 96,525,654

Authorized/Unissued Debt

(Unaudited)

	<u>a/o December 31, 2014</u>	<u>a/o June 30, 2015</u>	<u>Variance</u> <u>Increase (Decrease)</u>
General Obligation ¹⁾	\$ 1,595,785,204	\$ 2,087,645,140	\$ 491,859,936
Tennessee Local Development Authority (TLDA)	\$ 305,000,000 ²⁾	\$ 305,000,000 ²⁾	\$ -
TLDA Capital Projects	\$ 75,000,000	\$ 75,000,000	\$ -
Tennessee Housing Development Agency (THDA)	\$ 992,515,000 ²⁾	\$ 981,030,000 ²⁾	\$ (11,485,000)
Tennessee State School Bond Authority (TSSBA)	\$ 619,347,157 ³⁾	\$ 418,561,393 ³⁾	\$ (200,785,764)
Total Authorized/Unissued Debt	<u>\$ 3,587,647,361</u>	<u>\$ 3,867,236,533</u>	<u>\$ 279,589,172</u>

Footnotes:

1)	Authorized/Unissued a/o 6/30/14	\$ 1,823,065,204	A/U a/o 12/31/14	\$ 1,595,785,204	\$ (227,280,000)
	New Bond Authorization 2014-15	-		521,400,000	\$ 521,400,000
	Less: Canceled 2014/2015	(116,215,000)		(29,540,064)	\$ 86,674,936
	Less: Bonds Issued 2014 Series A	(111,065,000)		-	\$ 111,065,000
	Authorized/Unissued a/o 12/31/14	<u>\$ 1,595,785,204</u>	A/U a/o 6/30/15	<u>\$ 2,087,645,140</u>	<u>\$ 491,859,936</u>
	TDOT Bond Authorization:	\$ 645,000,000		\$ 728,800,000	\$ 83,800,000
	TDOT Bond Authorization - Bridges	175,200,000		146,100,000	\$ (29,100,000)
	Capital Projects Bond Authorization:	775,585,204		1,212,745,140	\$ 437,159,936
		<u>\$ 1,595,785,204</u>		<u>\$ 2,087,645,140</u>	<u>\$ 491,859,936</u>

2) Amount indicated is the unissued remaining statutory debt limit.

3) Amount indicated is capital projects approved by the TSSBA and the State Building Commission.

General Obligation Debt Information

General Obligation Debt

The State Funding Board debt management policy is located at:

<http://www.comptroller.tn.gov/sl/policy.asp>

- Bond principal matured in the amount of \$56,835,000
- Commercial paper outstanding decreased by \$45,664,000 and was comprised of new issuances totaling \$80,000,000 and repayments totaling \$125,664,000.
- Bond authorization was canceled in the amount of \$29,540,064

Legislation Enacted in 2015

The General Assembly passed legislation that demonstrated Tennessee's commitment to help the state and local governments to keep their financial houses in order.

Public Chapter 426 – revises the group insurance plans provided by the state, local education agencies (LEAs), and local governments

Revises the percentage that the state pays for dependents in the group plan for state employees for future fiscal years and adds a provision to allow the state to deny coverage to the spouse of a state employee hired after July 1, 2015 if the spouse is eligible for similar group health insurance through his/her employer. Stipulates that any part-time or seasonal employee who works less than an average of 30 hours per week will not be eligible for the group plan. Eliminates the health benefit for retired state employees, retired local education employees, and retired state employees of the University of Tennessee and state community college system hired after July 1, 2015. Establishes a board of trustees to manage any defined contribution plan or related retirement investment vehicle established as a health benefit by the state, local education, or local government insurance committees. Delegates the day-to-day responsibilities for managing the investments to the state treasurer. Requires that the basic health plan and other plan options and the state premium support amounts comply with a written policy approved by the council on pensions and insurance before becoming effective. Also, requires the trustees discussed above to establish an investment trust or trusts for the purpose of pre-funding other post-employment benefits accrued by employees of the state, and to adopt, in writing, an investment policy authorizing how assets in the trusts may be invested.

PC 112 – Local governments required to establish internal controls

Requires that all county, municipal, and metropolitan governments establish internal controls to ensure compliance with applicable law, prevent waste, and ensure operations are properly recorded.

PC 170 – County Budgets

Allows counties that have not adopted a budget by July 1 of any year to continue to operate under the previous fiscal year's budget for the months of July and August, and under extraordinary circumstances, with the approval of the Comptroller's Office to continue for the month of September. Requires that all counties have a budget adopted by September 30.

PC 041 – Local Government Required to Close Books for Audit Two Months after fiscal year end

Requires local governments that are subject to comptroller audit and handle public funds to close their accounting records and make them available for audit no later than two months after the close of their fiscal year.

Other Information on Outstanding Debt

Tennessee Local Development Authority (TLDA)

The TLDA debt management policy is located at <http://www.comptroller.tn.gov/sl/policy.asp>

Tennessee State School Bond Authority (TSSBA)

The TSSBA debt management policy is located at <http://www.comptroller.tn.gov/sl/policy.asp>

Higher Education Facilities Program

- Bond principal in the amount of \$43,360,000 matured during this period.
- On May 7, 2015, the Authority issued \$75,550,000 2015 Series A (Federally Taxable) and \$388,615,000 2015 Series B Bonds.
- The 2015 A and B bonds refunded \$174,650,000 of outstanding 2007C, 2008A, 2008B, 2009A, and 2010A bonds.
- The taxable portion of the Revolving Credit Facility loans outstanding decreased by \$10,600,432 million due to the repayment with proceeds from the 2015 Series A Bonds and the tax-exempt portion was decreased by \$86,453,306 due to the repayment with proceeds from the 2015 Series B Bonds.

Qualified Zone Academy Bond Program (QZAB)

- This program is a federal tax credit program created under Section 226 of the Taxpayer's Relief Act of 1997.
- Security for the QZABs is the general obligation pledge of the local borrowers. The program is enhanced by the intercept of the local governments' state-shared taxes. There is no cross default to the Higher Education Program Facilities Bonds.
- As of June 30, 2015, the fund balance amount, held in the pledged sinking fund accounts available to repay the bonds, is \$30,302,155.

Qualified School Construction Bond Program (QSCB)

- This program is a federal tax credit (2009)/federal subsidy (2010) program created under the American Recovery and Reinvestment Act (ARRA) of 2009.
- Security for the QSCBs is the general obligation pledge of the local borrowers. The program is enhanced by the intercept of the local governments' state-shared taxes, and there is no cross default to the Higher Education Program Facilities Bonds.
- As of June 30, 2015, the fund balance held in the pledged sinking fund accounts available to repay the QSCBs totaled \$103,602,691.

Tennessee Housing Development Agency (THDA)

The THDA debt management policy is located at <http://www.comptroller.tn.gov/sl/policy.asp>

- Bond principal outstanding increased by \$ 11,485,000 during this time period.
 - New bonds were issued totaling \$ 313,850,000.
 - Bond principal matured in the amount of \$ 302,365,000, of which \$ 179,740,000 was part of the NIBP program.

Bond Ratings on Outstanding Debt

BOND RATINGS

	<u>Fitch</u>	<u>Moody's</u>	<u>S & P</u>
State of Tennessee	AAA	Aaa	AA+
Tennessee Local Development Authority	AA	Aa3	AA+ ¹
Tennessee State School Bond Authority (TSSBA)	AA+	Aa1 *	AA
TSSBA, Qualified School Construction Bonds (QSCB) Series 2009 (Tax Credit Bonds)	AA+	Aa1 *	AA
TSSBA, Qualified School Construction Bonds (QSCB) Series 2010 (Federally Taxable – Direct Subsidy Payment)	AA	Aa1 *	AA
THDA 1974 Resolution	n/a	Aa2	AA
THDA 1985 Resolution	n/a	Aa1	AA+
THDA 2009 Resolution (NIBP)	n/a	Aa2	n/a
THDA 2013 Resolution	n/a	Aa1	AA+

*** Explanation of Moody's Investor Services ratings:**

The ratings for these bonds are analyzed under the pre-default enhanced credit program by Moody's Rating Services. Moody's assigns separate ratings for the program and for each series of bonds issued under the program.

Tennessee State School Bond Authority (TSSBA)

Programmatic rating - Aa1

Financing rating - Aa1

TSSBA, Qualified School Construction Bonds (QSCB), Series 2009 (Tax Credit Bonds)

Programmatic rating - Aa1

Financing rating - Aa2

TSSBA, Qualified School Construction Bonds (QSCB), Series 2010

Programmatic rating - Aa1

Financing rating - Aa2

¹ The Standard & Poor's rating for the Tennessee Local Development Authority was downgraded to AA+ from AAA on August 31, 2012 due to the diminishing size of the program.

Annual Debt Service for State of Tennessee General Obligation Bonds

as of June 30, 2015

(Unaudited)

	PRINCIPAL	INTEREST	DEBT SERVICE REQUIRED
FY2015*	\$ 152,025,000	\$ 76,235,813	\$ 228,260,813
FY2016	151,825,000	73,795,225	225,620,225
FY2017	145,965,000	67,247,982	213,212,982
FY2018	137,270,000	60,497,132	197,767,132
FY2019	127,975,000	54,684,105	182,659,105
FY2020	124,960,000	49,230,000	174,190,000
FY2021	118,140,000	43,862,963	162,002,963
FY2022	118,310,000	38,566,988	156,876,988
FY2023	110,615,000	33,455,886	144,070,886
FY2024	110,350,000	28,907,473	139,257,473
FY2025	101,740,000	24,849,282	126,589,282
FY2026	100,955,000	20,626,670	121,581,670
FY2027	92,800,000	16,725,233	109,525,233
FY2028	88,645,000	13,187,359	101,832,359
FY2029	81,665,000	9,359,504	91,024,504
FY2030	56,290,000	5,894,181	62,184,181
FY 2031	45,095,000	3,724,871	48,819,871
FY 2032	35,765,000	1,823,905	37,588,905
FY 2033	12,550,000	798,750	13,348,750
FY 2034	5,550,000	416,250	5,966,250
FY 2035	5,550,000	138,750	5,688,750
	<hr/>	<hr/>	<hr/>
	\$ 1,924,040,000	\$ 624,028,323	\$ 2,548,068,323

* Includes amounts for the entire fiscal year 2015.

Loan Programs Administered by the Office of State and Local Finance

(Unaudited)

	<u>a/o December 31, 2014</u>		<u>a/o June 30, 2015</u>		<u>Variance Increase (Decrease)</u>	
	<u>Number of loans/projects</u>	<u>Loans Outstanding</u>	<u>Number of loans/projects</u>	<u>Loans Outstanding</u>	<u>Number of loans/projects</u>	<u>Loans Outstanding</u>
<u>State Revolving Fund Loan Program</u>						
Clean Water (Sewerage)						
Principal Outstanding	166	\$ 383,317,801	180	\$ 395,348,446	14	\$ 12,030,645
Drinking Water						
Principal Outstanding	91	\$ 90,935,277	92	\$ 91,524,008	1	\$ 588,730
<u>Energy Efficient Schools Initiative (EESI)</u>	52	\$ 52,239,075	52	\$ 49,252,794	-	\$ (2,986,281)
<u>State Infrastructure Fund (SIF)</u>	1	\$ 116,506	1	\$ 116,506	-	\$ -

Loan Programs Information

State Revolving Fund Loan Program

The State administers the State Revolving Loan Funds Programs for the Local Governments. The programs currently have no outstanding indebtedness in the capital marketplace. The programs are funded by federal and state capitalization grants. Therefore, the dollar amount of loans managed for the State Revolving Loan Programs is not included in the Total State Indebtedness.

Clean Water State Revolving Fund (CWSRF)

- During this period, the loan balance increased \$12,030,645. Twelve new loans were added to the program, and one loan increase was approved. The dollar amount of loans outstanding increases as funds are drawn to pay project costs and decreases as the loan principal is repaid.

Drinking Water State Revolving Fund (DWSRF)

- During this period, the loan balance increased \$558,730. Five new loans were added to the program, and two loan increases were approved. The dollar amount of loans outstanding increases as funds are drawn to pay project costs and decreases as the loan principal is repaid.
- One loan was prepaid in the amount of \$1,068,341.

Energy Efficient Schools Initiative (EESI)

The Energy Efficient Schools Initiative (EESI) was established by the Tennessee General Assembly in 2008 with \$90 million. Over \$87 million has been approved for projects to improve the energy efficiency in Tennessee's public K-12 schools. Purposes of the Energy Efficient Schools Council, also created by this legislation, include providing grants and loans for capital outlay projects and establish and support energy management programs. The enabling legislation also created a twelve member council to approve guidelines, award grants and loans, verify energy efficiencies, and establish and support energy management programs.

- From December 31, 2014 to June 30, 2015, the loan balance decrease was comprised of approximately \$3 million in loan repayments

State Infrastructure Fund (SIF)

The State Infrastructure Program provides assistance to Local Government Units in the construction of transportation infrastructure projects that provide public benefits by enhancing mobility or safety, promoting economic development, or increasing the quality of life and general welfare of the public.

- No disbursements were made from December 31, 2014 to June 30, 2015.

Board Membership

State Funding Board

Governor Bill Haslam, Chairman
Comptroller Justin P. Wilson, Secretary
Secretary of State Tre Hargett
Treasurer David Lillard
Larry Martin, Commissioner of Finance and Administration

Tennessee Local Development Authority

Governor Bill Haslam, Chairman
Secretary of State Tre Hargett, Vice-Chairman
Comptroller Justin P. Wilson, Secretary
Treasurer David Lillard
Larry Martin, Commissioner of Finance and Administration
Mr. Pat Wolfe, Washington County, Tennessee, Senate Appointee
Dr. Kenneth Moore, Franklin, Tennessee, House Appointee

Tennessee State School Bond Authority

Governor Bill Haslam, Chairman
Comptroller Justin P. Wilson, Secretary
Secretary of State Tre Hargett
Treasurer David Lillard
Larry Martin, Commissioner of Finance and Administration
Dr. Joseph DiPietro, President, University of Tennessee
John G. Morgan, Chancellor, Tennessee Board of Regents

Bond Finance Committee

Tennessee Housing Development Agency

Brian Bills, Chairman
Comptroller Justin P. Wilson, Secretary
Secretary of State Tre Hargett
Treasurer David Lillard
Larry Martin, Commissioner of Finance and Administration

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Jacqueline Felland
Donna Kaukas

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